



TESTIMONY OF JOSEPH LEONARD  
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Before the  
Subcommittee on Aviation  
House Committee on Transportation and  
Infrastructure

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Mr. Chairman, Mr. Oberstar, and Members of Subcommittee on Aviation, thank you for the opportunity to appear again before this distinguished Subcommittee. Let me also thank you for the effective and proactive work of the Subcommittee in shaping our nation's aviation policy. The legislative and oversight agenda you have helped develop both before and after September 11, 2001, has been the lifeblood of our industry in these challenging times.

Mr. Chairman, AirTran is proud to be cited as an example of a successful low fare carrier. We recently reported our eighth consecutive quarter of profitability, and 2003 was the most successful year in our history. Our first quarter profits this year were double those of last year. Excluding fuel, our very low unit costs were **down** by 4.3 percent, our passenger numbers were **up** more than 16 percent to a record 3 million for the quarter, and our load factor grew despite a 21 percent increase in capacity. We have grown in size as an airline by approximately 25 percent a year for each of the past three years. We have added 13 cities and 43 routes since September 11, 2001.

But our success has **not** come because we are a low fare carrier. A low fare or even a low cost airline is **not** inherently profitable. Many low fare carriers have failed.

The secret of success is not to be a **low fare** airline, but to be a **highly efficient** airline, whether you are a big airline or small, and to adapt to the changing marketplace.

The most important point I can make this morning is this:

Anything the government does to encourage efficiency and competition for all carriers will help the airline industry and the traveling public. Anything the government does to subsidize inefficiency and discourage competition will fail-- both for the airlines and for the taxpayers. Quite frankly a lot of what the government currently is doing or failing to do in aviation policy is **subsidizing inefficiency**.

In some actions, the government is postponing the day of reckoning for aviation business models that no longer work. The problem with aviation policy today is that there is a gross mismatch between the barriers to **entry**, and the barriers to **exit**. The government seems determined to stop the market place from choosing what it wants. We should keep the exit doors open and let inefficient carriers—be they low cost or high cost—fail.

I will come back to that point in a moment, but for now let me tell you the formula for AirTran's success:

First, our success is driven by the quality and commitment of our work force. We have 5,600 dedicated professional crew members. Our flight attendants, mechanics, dispatchers, and pilots are unionized, and AirTran's management and labor have strong views that are freely expressed. But our employee crew members are entrepreneurial and committed to the success of the airline.

Second, we are low fare, and have low costs, but we spend money where it counts—adding value for our customers. We have the youngest all-Boeing fleet in the industry-- the largest fleet of Boeing 717's with 76 aircraft today and more coming. We take delivery this summer of the first of our order of 100 Boeing 737-700's. Our aircraft are the quietest, most fuel efficient, and environmentally friendly aircraft in the skies. We have the largest overhead bins available. We are installing XM Satellite Radio on all our aircraft. We have dual class, reserved seating.

Third, we wake up every day trying to increase our efficiencies and control costs. We never stop trying to increase our aircraft, gate, and crew utilizations. We were an early industry leader in paperless tickets. We have one of the most effective Internet booking sites in the industry. We have expanded our operations, but cautiously. For example, in 2004 we are adding no new cities, but are increasing flight frequencies and leveraging existing infrastructure.

Fourth, we work to give the public what they tell us they want. We have a simple pricing formula that our customers can understand. We never require a round trip ticket or a Saturday night stay-over for a lower fare. We employ the efficiencies of a hub and spoke system in order to reach small and medium-sized markets. We are virtually alone among the smaller carriers in that we openly challenge the legacy airlines in hub-to-hub markets, as well as point-to-point service. We are anxious to expand in small markets.

Typically, our entry into a market drops fares by more than 50 percent from prior levels, and we stimulate new traffic between 150 to 500 percent. Based on Department of Transportation criteria, it is estimated that AirTran competition results in annual fare savings of some \$700 million through our Atlanta hub alone.

So the AirTran story is that we stimulate markets, we boost the economy of the cities we serve, we lower fares, and provide an expanding payroll for our employees and value for our shareholders. We serve both small and large communities. We do not ship jobs off shore: we buy American-made aircraft, and all three of our call centers, including a new one that opened this spring, are in the U.S.

In short, Mr. Chairman, I think we are doing what the Subcommittee, the Congress, the Executive Branch, and the public would like every airline to do. I would like to say that government policies have facilitated what we do, but in all candor, that is not always the case.

Here are some of the issues that block us from a level playing field:

- Barriers to entry at airports and gate access. Entry to slot controlled and other congested airports remains a very difficult hurdle for low fare carriers. This Subcommittee helped new entrants expand our low fare service at Washington's Reagan National Airport, and I personally appreciate the great effort that went into that through Air 21. But I know many of you are aware that more remains to be done. Some legacy carriers under utilize gates and slots in order to protect them from acquisition by new entrants. We need a truly competitive opportunity to provide the consumer with the flight frequencies that fully drive the market. We may strive for "Open Skies" in international service, but we do not have open skies at home.

- De facto subsidies. In my view, the special aviation provisions in the recent pension bill do little over the long term to secure employee pensions. But they do provide a temporary infusion of cash for a select handful of large carriers who now have simply postponed the resolution of their pension problems and are using this money for other purposes.
- The ATSB loan program. The loan program was created to address the immediate crisis after 9/11, and to foster the long-term health of the airline industry. It was not meant to be an on-going federal subsidy. It was not meant to mandate a contribution of taxpayer funding for business plans that are likely to fail.
- Mergers and alliances. Some airlines are trying to set the stage to relax the rules controlling mergers and marketing alliances. I don't oppose mergers and alliances, but if Congress or the Department takes action to facilitate them, then some of the slots and gates involved should be made available for competitive service. In the real world of today, mergers and alliances may be just another way to postpone a day of reckoning for business plans that don't work. Be on the alert—I would not be surprised if the next proposal for a merger or an alliance you hear about will ask for exclusions from the few existing pro-competition regulations still on the books.
- Regional Jets. RJ's have been reborn as a supposed savior for the airlines in the minds of many, and Department of Transportation and Congressional policy is biased in their favor. RJ's have an important place in aviation. But I don't understand why DOT policy today will allow AirTran to fly from a small community to LaGuardia if I use a 50-passenger RJ, but prohibit me from flying between the same cities with a 117-seat, full size jet. I don't understand how the already over-loaded Air Traffic Control system will absorb the hundreds of RJ's now on order.

Yes, the industry continues to suffer some after shocks from 9/11—particularly in the extraordinary increase in security fees and the airport “hassle” factor of security delays. Federal taxes and security fees now account for about 25 percent of the cost of an AirTran ticket. As this Subcommittee itself has said, all carriers face extraordinary difficulties in dealing with TSA management issues that will impact passenger screening this summer. Airlines are disproportionately affected by the skyrocketing cost of fuel. All carriers share the need to have an enhanced ATC system, war risk insurance, and relief from the taxes and fees that make an airline ticket one of the most highly taxed purchases in America.

But the seeds of the industry crisis we face now were clearly visible before 9/11. No revival of the economy, no dip in fuel prices, and no waiver of restrictions on mergers and alliances will save the day.

Mr. Chairman and Members of the Subcommittee, the best thing you can do to improve the health of the industry is to encourage business efficiencies, refrain from targeted subsidies, and level the competitive playing field.

Thank you for your time, and again, thank for your leadership.

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